BARRON'S COVER

The King of Bonds

Brilliant and controversial, bond-fund manager Jeffrey Gundlach has outperformed nearly all his rivals, first at TCW, which fired him, and later at DoubleLine Capital, which he founded.

By JONATHAN R. LAING
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Celebrated bond-fund manager Jeffrey Gundlach has a healthy -- some might say overdeveloped -- ego.

In the course of several interviews at the Los Angeles headquarters of his new investment firm, DoubleLine Capital, Gundlach drops any number of boasts. He can do the Sunday New York Times crossword puzzle in a half-hour. On a good day, make it 20 minutes. Gundlach, 51 years old, was a top student at Dartmouth, where he majored in mathematics and philosophy before entering a high-powered Ph.D. program in mathematics at Yale. He left, claiming boredom, to become a rock drummer in L.A., before drifting into money management.

"Look, I have a gift, or some would say a curse, of being able to have stunning insight into the reality of markets and the economy," Gundlach says, dressed resplendently at this particular moment in a well-tailored Italian suit with matching green tie and pocket square. "I don't often know where my ideas come from. Maybe it's the fact that I'm obsessively regimented in my analysis, borderline autistic. But whether it's bond selection or asset allocation, we can do it better than just about anybody around."

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Enlarge Image

Jeffrey Gundlach *Michael Grecco for Barron's*

It is easy to dismiss such swagger, but Gundlach has the performance record to back it up. At Trust Company of the West, where he worked for more than 20 years until he was fired in December 2009, his flagship $12 billion TCW Total Return Bond Fund (ticker: TGLMX) finished in the top 2% of all funds invested in intermediate-term bonds for the 10 years that ended just prior to his departure, according to Morningstar. It finished in the top 1% for the five years ended just before that watershed event.

Gundlach's legendary success has continued at DoubleLine, which he founded shortly after leaving TCW. His DoubleLine Total Return Bond Fund (DBLTX), with $4.5 billion of assets as of Jan. 31, outperformed every one of the 91 bond funds in the Morningstar intermediate-bond-fund universe in 2010, despite launching only in April. It notched a total return of 16.6%, compared with returns of 8.36% for the giant Pimco Total Return Fund (PTTAX), run by the redoubtable Bill Gross, and 10.74% for TCW Total Return Bond, now managed by Metropolitan West, an able fixed-income shop acquired by TCW to replace Gundlach and his team.

Gundlach's DoubleLine Core Fixed Income Fund (DBLFX), with assets of $112.8 million, is no slouch, either. It returned a total 7.5% from its June 1 launch through the end of December, nearly three times the performance of the Barclays U.S. Aggregate Index in the same stretch.

EVEN MORE EXTRAORDINARY, Gundlach achieved this record by investing almost exclusively in his specialty, securities backed by home mortgages, during a decade when the mortgage-backed market underwent tectonic shifts, destroying many less able investors. First, plummeting mortgage rates led to waves of refinancings, forcing mortgage-backed holders to reinvest pre-payments at ever lower rates. Then came the housing bust in 2007, and a tsunami of foreclosures and mortgage defaults that continue to this day.

Gundlach, who had warned of a coming residential-mortgage debacle as early as 2006, including in the pages of *Barron's*, deftly rode out the storm by switching out of private-

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